

Zeti Akhtar Aziz: Internationalisation of Islamic finance – bridging economies

Welcoming address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Global Islamic Finance Forum 2012, Kuala Lumpur, 19 September 2012.

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This is a decade of profound change in the global financial landscape. The world is also being confronted by the repercussions of the ongoing global financial crisis. Despite this more challenging global financial and economic environment, Islamic finance has continued to remain on its growth trajectory. For Islamic finance, it has been a defining period. Its rapid growth and the intensification of its internationalisation in this decade is now enhancing its role in strengthening international economic linkages between different parts of the world.

It is my great pleasure and honour to welcome you this morning to this third Global Islamic Finance Forum (GIFF) 2012. First of all, let me express our gratitude to the Honourable Deputy Prime Minister of the Republic of Turkey, His Excellency Mr. Ali Babacan for accepting our invitation to deliver the Public Lecture at our gathering here today. We are most honoured by your presence and we immensely look forward to your address.

Islamic finance: fostering global linkages

In this new era, in which the international dimension of Islamic finance has gained significance, Islamic finance has continued to demonstrate its viability and competitiveness in this more liberalised and globalised financial environment. The total Islamic financial assets size now has surpassed US\$1 trillion – following unabated growth from the mid-1990s. There are now more than 600 Islamic financial institutions operating in more than 75 countries. Increasingly, existing Islamic banking institutions are expanding their operations with presence in new jurisdictions. This is resulting in increased cross border financial flows. There has also been increased international participation in Islamic financial markets.

Since the late 1990s the Sukuk market has emerged as an important form of intermediation in Islamic finance. It has been instrumental in the financing structures for infrastructure projects, investments in the utilities sectors, in particular for water and power projects, and in the services sector, in education, healthcare and transportation. Islamic finance essentially offers clear value propositions to both global issuers and investors. For issuers, there is access to new sources of funds and liquidity. And in introducing a new asset class, investors gain from portfolio diversification and new investment opportunities that are aligned to productive investment activities.

Internationalisation of Islamic finance: mutually-reinforcing benefits

Islamic finance draws its strength from serving the real economy. An important feature of Islamic finance is that it involves financial transactions that must be accompanied by an underlying economic transaction. And when it is cross border, it will facilitate financial flows that will support international trade and investment flows. It will contribute towards bridging economies and enhancing our economic connectivity with each other.

In this current global environment in which emerging economies are demonstrating their resilience with the ability to sustain growth despite the moderation in global expansion, there is tremendous prospects for mutually reinforcing growth from increased economic connectivity. Trade among the expanding emerging economies now account for more than half of the world trade. This growing demand in emerging economies is also generating investment opportunities. In this environment, Islamic finance has an important potential to facilitate trade and investment flows that will be mutually reinforcing. In evolving Malaysia as

an Islamic financial hub, our aspiration is to be a hub that is linked to a network of other financial hubs. In so doing, it will enhance our economic linkages with other parts of the world.

The increased internationalisation of Islamic finance would thus influence the patterns of global financial and economic integration, and in particular facilitate the revival of financial and economic integration between the countries along the old silk road from Asia to Turkey and the Middle East, and Africa and to the more established financial markets and developed economies. The start of this decade has already witnessed the shifting of trade activities to the emerging economies, which now account for 63 percent or US\$37 trillion of world trade as at end-2011, an increase of 17 percent from a decade ago.

While the Islamic banking sector has been important in intermediating cross border financial flows, the sukuk market has become an important segment of Islamic finance that offers a distinct platform upon which international inter-linkages are fostered. The sukuk market has demonstrated its ability to effectively intermediate funds across borders, contributing towards the efficient allocation of funds in the global financial system. The sukuk epitomises a truly global product for international fund raising and investment activities. An increasing number of multilateral agencies, sovereigns, Government agencies and corporations, including multinational corporations have relied on the sukuk market as a source of financing. And the diverse composition of the sukuk investors across continents has added further depth to the international dimension of the sukuk market. In Malaysia, the sukuk market has evolved into a multi-currency denominated sukuk market with pioneering sukuk issuances in U.S dollars, Singapore dollar and the Renminbi.

Internationalisation of Islamic finance: key success factors

The new horizon that is emerging is the rapid internationalisation in Islamic finance which needs to be strongly underpinned by three key factors to ensure its sustainability. Firstly, the wide range of global supply of high-quality Islamic financial products and services that are able to meet the requirements of international businesses. In this phase of growing international transactions, Islamic finance needs to be dynamic and innovative, with an emphasis on the development of diversified and comprehensive Shariah-compliant financial solutions to meet the differentiated needs of various businesses, including the requirements of international businesses and thus facilitate cross-border investments.

Secondly, is having diverse and dynamic intermediaries and market participants that have a global focus. This includes having Islamic banking, takaful and capital market players that venture beyond domestic boundaries to tap global opportunities. Global ancillary services that are proficient in the Shariah, also have an important role in providing supportive professional services for such intermediaries and market players to effectively embark on such cross-border activities.

In addition, having the required talent is another imperative in steering the Islamic financial sector towards increased internationalisation. The new financial landscape will require world-class business talent and boards with knowledge of the risks associated with internationalisation. Greater collaboration between the industry and education service providers will be important in supporting the talent requirements of the industry in its new phase of development. Today, we will witness the signing of a Memorandum of Agreement between an industry player and an academic institution for the establishment of an Islamic wealth management research centre. This commendable effort is dedicated to producing applied research in the area of Islamic wealth management. It is envisaged to spur innovation that will bring with it global benefits and that would also contribute towards setting industry standards in this key component of the Islamic financial industry.

Thirdly, effective linkages and connections between global financial markets will be facilitated by business enablers, particularly in the area of legislation, taxation and regulation. The new global landscape of growing cross-border financial flows between regions that have national

and cultural differences also underscores the need for enhanced recognition and understanding of practices in the different jurisdictions. This imperative translates into high demands on the use of standardised documents and agreements among financial market players, so as to increase market efficiency, transparency and uniformity, as well as to reduce the cost of transactions as we strive towards seamless global inter-linkages. Standardised documentation and practices for a number of products have already been adopted between jurisdictions through bilateral and multilateral agreements. This has facilitated issuance of financial market instruments, contributing towards enhanced liquidity in Islamic financial markets and greater inter-market linkages. Greater understanding and clarity on Shariah matters, will also contribute towards convergence and harmonisation of such interpretations across jurisdictions and thus contribute towards the development of Islamic financial products and services.

Realising cross-border potentials and bridging economies

With its international outreach and ability to provide comprehensive financial solutions, Islamic finance beckons us with a new frontier that presents new opportunities. As we enter into a more uncertain global environment, it also prompts us to revisit strategies to enhance the resilience of Islamic finance.

The theme of this year's Global Islamic Finance Forum 2012, "Internationalisation of Islamic Finance: Bridging Economies" focuses on the international prospects surrounding the Islamic finance industry and its tremendous potential role in strengthening cross-border economic linkages. More than 500 participants from over 50 countries across the continents gather today in this Forum to explore this prospect. In its featured plenary and multi-track programmes which include the Regulators Forum, the International Shariah Scholars Forum, the Global Islamic Liquidity Management Conference and the Global Islamic Finance Taxation Forum, a new highlight is the Bridging Economies Forum that aims to discuss the Islamic finance prospects and opportunities across regions, and to explore possible market linkages that can be generated through Islamic finance. Several important signings of MoUs will also be taking place during this Forum, highlighting increased commitment and international cooperation.

Let me now conclude with an extension of our appreciation to the panel of distinguished speakers for their contribution to GIFF 2012. I would also like to once again, express our gratitude to the Honourable Deputy Prime Minister of the Republic of Turkey, His Excellency Mr. Ali Babacan for being with us today to speak at this event.